

Evaluation of the RRB's Processing of Disability Earnings Cases
Report No. 05-03, February 11, 2005

Introduction

This report presents the results of the Office of Inspector General's (OIG) evaluation of the Railroad Retirement Board's (RRB) processing of disability earnings cases.

BACKGROUND

The RRB's mission is to administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act (RRA) and the Railroad Unemployment Insurance Act. During fiscal year (FY) 2004, the RRB paid approximately \$9.1 billion in benefits to annuitants and railroad employees.

Disability annuities paid to annuitants under full retirement age¹ represented 12% of total benefits during FY 2004. Through this period, employees received approximately \$1.1 billion in disability annuities and, as of September 30, 2004, there were about 48,000 disabled annuitants receiving an average monthly payment of \$1,954.

Under the RRA, a total and permanent disability is generally paid if an employee is disabled for all regular work and has at least ten years of creditable railroad service. An occupational disability is generally paid if an employee is disabled for his or her regular railroad occupation and has either ten years of creditable railroad service at age 60 or 20 years of service at any age.

Disabled employees have work restrictions and earnings limitations that can affect their annuity eligibility². The annuity is typically subject to a work deduction based on earnings if they work in non-railroad employment or self-employment after their annuity beginning date (ABD). A disability annuity is also not payable for any month in which the annuitant works for a railroad or other employer covered by the RRA. Because working may indicate recovery from disability, the annuitant is required to promptly report any earnings to avoid overpayments. Failure to report such earnings could result in the assessment of an administrative penalty and/or criminal prosecution.

The Office of Programs is responsible for processing disability annuity actions under the RRA. The office has established monitoring programs to identify post-disability earnings that have not been disclosed voluntarily.

¹ Full retirement age is the age at which an employee with less than 360 months of railroad service can receive a full annuity not reduced for early retirement. Full retirement is age 65 for employees born before January 2, 1938, and gradually increases over a 20-year period to age 67 for those born after January 1, 1938.

² 45 United States Code § 231a(e)

In its 2003-2008 strategic plan, the RRB has established a goal that the agency will serve as “responsible stewards for our customers’ trust funds and agency resources” and a related strategic objective to ensure the integrity of benefit programs. A component of the President’s Management Agenda is the initiative to reduce erroneous payments. The Improper Payments Information Act of 2002 requires Federal agencies to report annually the extent of erroneous payments and the actions they are taking to reduce such payments. This evaluation directly assesses agency performance in these key areas.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this evaluation was to determine if the RRB identified and applied deductions to disability employee annuities in a timely manner. Our scope included disabled employee annuitants under age 65 as of January 2003 and in current pay status.

To achieve our objective, we:

- interviewed officials in the Office of Programs;
- reviewed pertinent laws, policies and procedures;
- tested 320 cases, on a statistical sample basis, to assess effectiveness of the agency’s identification of undisclosed earnings among disability annuitants under age 65; and
- tested 30 cases, on a random sample basis, to assess the effectiveness and timeliness of the agency’s processing of disability earnings.

The details of our sampling methodology are presented in Appendices I and II of this report.

This evaluation was conducted in accordance with the President’s Council on Integrity and Efficiency’s “Quality Standards for Inspections,” as applicable to the objectives. The fieldwork was conducted at the RRB headquarters in Chicago, Illinois in October and November 2004.

RESULTS OF REVIEW

Our evaluation determined that the RRB is not identifying and applying work deductions to disability annuities in a timely manner. The agency has not sufficiently monitored disabled annuitants with earnings for possible work deductions. The agency did not investigate earnings cases identified in its 2000 and 2001 program integrity matches, and failed to properly identify all disabled annuitants who work for a railroad employer after their ABD. In addition, the agency is not always processing disability earnings cases to ensure the proper identification and timely collection of overpayments.

The details of our findings and recommendations follow.

DISABLED ANNUITANTS WITH EARNINGS ARE NOT SUFFICIENTLY MONITORED

The Office of Programs has not sufficiently monitored disabled annuitants with earnings for possible work deductions. Our evaluation of 320 sample cases identified two annuitants who worked for non-railroad employers and had earnings over the threshold amount, and four annuitants who worked for railroads and were credited with more than three service months. Three exceptions had a monetary impact, and based on sample results, we estimate, with 95% confidence, that the number of currently disabled annuitants to which work deductions have not been applied is approximately 467.

A disability annuity is not payable for any month in which the annuitant returns to non-railroad employment and earns over \$400 per month and \$5,000 or more annually, after impairment related work expenses are deducted. The annuity is typically subject to a work deduction of one month's benefit for each multiple of \$400 earned over \$4,800 in yearly earnings.

A disability annuity is also not payable for any month in which the annuitant works for a railroad or other employer covered by the RRA. Current procedures require that the agency only investigate post-ABD service of four or more credited service months. RRB management made this policy decision based on a previous study which showed that when the railroad has not credited service months or credited only a minimal number of months to the annuitant's account, the earnings represented vacation pay or payments not due to actual work. Railroads are required to submit a report of earnings and service months to the agency on an annual basis.

The agency uses the following program integrity activities to monitor eligibility status and identify individuals who no longer qualify for benefits:

- Disability Policing is a process that obtains a yearly earnings summary for each annuitant from the Social Security Administration (SSA). All earnings, including multiple employers, are included in these summaries. The Office of Programs uses this data to determine if any excess earnings are subject to further review. This is the agency's most comprehensive earnings monitoring program.
- Disability state wage matches obtain wage and unemployment benefit data from each state under a contractual agreement in accordance with the Computer Matching and Privacy Protection Act of 1988.
- Third parties, such as employers, other governmental agencies, or anonymous informers provide referrals to the agency.
- Continuing disability reviews involve the agency re-assessing the annuitant's eligibility of benefits based on medical improvement, including determining whether annuitants with earnings have successfully returned to work.

- Disabled annuitants respond to annual disability reminder letters requesting them to report work and earnings.
- Referral notices from the Service After ABD Process identify questionable service months to investigate.

The Office of Programs did not review cases identified from the 2000 and 2001 SSA disability policing. The office concentrated its work efforts on reducing a backlog of continuing disability review cases and did not focus on reviewing disability cases for excess earnings. Although the 2000 and 2001 disability policing results had been obtained, the office did not use the data because they wanted the results compiled in a more usable format.

Railroad earnings cases were undetected by the agency systems because the current Service After ABD Process did not accurately count all service months. The program only identifies consecutive service months for the current year, but fails to count service months earned non-consecutively or in multiple years. Officials in the Bureau of Information Services, which maintains the program, have advised that revisions currently under development will rectify this deficiency.

Because the Office of Programs has not sufficiently monitored disabled annuitants with earnings for possible work deductions, we estimate, based on sample testing, that 467 currently disabled annuitants have been overpaid. At the minimum, a one-time amount of \$1.8 million could have been overpaid. An estimate of potential erroneous payments due to this deficiency is reportable under the Improper Payments Information Act of 2002.

Recommendations

The OIG recommends that:

1. The Office of Programs complete a review of the 2000 and 2001 disability policing results from SSA, including re-verifying any excess prior year earnings and tracking the volume and amounts actually overpaid; and
2. The Bureau of Information Services complete revisions to the Service After ABD Process that will accurately identify and compile service months.

Management's Response

The Office of Programs concurs with recommendation 1 and will develop an action plan to evaluate and track resolution of cases reviewed by August 15, 2005. The Bureau of Information Services agrees with recommendation 2 and completed revisions necessary to properly code cases with earnings after the ABD on January 25, 2005. The Bureau of Information Services will coordinate with the Office of Programs to run the programs to produce the listings of cases by April 1, 2005.

Complete copies of the management responses from the Office of Programs and Bureau of Information Services are included as Appendices III and IV, respectively.

PROCESSING IMPROVEMENTS NEEDED FOR PROPER IDENTIFICATION AND TIMELY COLLECTION OF OVERPAYMENTS

The Office of Programs is not consistently processing disability earnings cases to ensure the proper identification and timely collection of overpayments. The office identified some cases from continuing disability reviews and state wage matches. However, our review of a random sample of annuitants from the 2001 disability policing identified cases in which:

- Some earnings reviews, including one case with excess earnings dating from 1998, were not started until 2003. These reviews have not been completed to confirm the earnings, suspend the annuity, and process the overpayment.
- Some earnings reviews, including one case with excess earnings dating from 1998, were not started until 2004 and have not been completed.
- Earnings information used was incomplete because all earnings were not properly identified by agency staff during their review.
- The estimated overpayment receivable for a potential fraud case, which had excess earnings dating from 1995, was never established.

The Office of Programs is responsible for processing disability annuity actions under the RRA. After staff receives results of the program integrity reviews, they are required to investigate the earnings by contacting the employer and/or annuitant to confirm employment and suspend existing payments, if necessary. They are required to calculate any overpayment and forward cases involving potential fraud to the OIG. The Office of Programs also sends the estimated overpayment information to the Bureau of Fiscal Operations (BFO) for establishing the receivable. However, the agency suspends its collection efforts for cases that the OIG has referred to the United States Department of Justice.

The Office of Programs does not have timeliness standards for the completion of earnings reviews nor do they have adequate controls to ensure that all earnings are identified. In addition, the office has not developed procedures to ensure that overpayment information is forwarded to BFO for cases referred to the OIG. Improperly processing disability earnings cases contributes to the overpayment of disability annuity benefits.

Recommendations

The OIG recommends that the Office of Programs:

3. Establish standards for timely processing of the earnings cases identified in the annual disability policing program and report performance;
4. Issue a reminder to staff of current procedures for identifying all earnings in their reviews; and
5. Develop procedures to ensure that overpayment information for cases referred to the OIG is forwarded to BFO for establishment of the receivable.

Management's Response

The Office of Programs concurs with all three recommendations. They will develop standards for timely processing of cases by August 15, 2005. They will issue a reminder notice to staff of current procedures for identifying all earnings by May 15, 2005. Concerning recommendation 5, they have advised that they currently have a procedure for cases referred to the OIG, but will develop a procedure for establishing receivable records for cases referred by the OIG by August 15, 2005.

The management response is included as Appendix III.

Sampling Methodology and Results Disability Annuities Under Age 65

We used statistical sampling to evaluate the effectiveness of the agency's identification of undisclosed earnings among disability annuitants under age 65.

Audit Objective and Scope

The objective of our test was to estimate the number of disability annuities for which work deductions were not properly applied because of excess earnings. We selected the sample from the population of 49,688 disabled annuitants under age 65 as of January 2003, and in current pay status as of September 2004.

Evaluation Methodology

We used attribute estimation sampling which yielded a sample size of 320. For each case, we obtained and reviewed the annuitant's benefit history for previously applied work deductions and his/her Social Security Act earnings history for undisclosed earnings after the annuity beginning date (ABD). If the undisclosed earnings were with a railroad employer, we reviewed the railroad service months credited to their account. Any of the following was considered an audit exception:

- Disabled annuitants with earnings over the threshold amount and no work deduction. The agency's threshold amount of \$5,000, exclusive of impairment related work expenses, is the maximum amount of money that can be earned in a year without losing any monthly disability benefits.
- Disabled annuitants who worked for a railroad after their ABD and were credited with more than three service months.

Results of Evaluation

Our evaluation of 320 randomly selected disabled annuitants identified three exceptions with overpayments. Based on sample results, we estimate, with 95% confidence, that the number of currently disabled annuitants to which work deductions have not been applied is 467, but could be as low as 99 or as high as 1342. We estimate a minimum one-time amount of \$1.8 million has been overpaid because of the ineffective agency procedures.

Conclusion

Based on our evaluation, we conclude that the incidence of unprocessed disability work deductions warrants RRB management's attention.

Sampling Methodology and Results

Evaluation of Agency Processing of Disability Earnings Cases

We used random sampling to determine if the agency was processing disability earnings cases properly to ensure the timely identification and collection of overpayments.

Audit Objective and Scope

The objective of our testing was to determine if the agency was processing disability earnings cases properly to ensure the timely identification and collection of overpayments. Although the agency did not review earnings information from their 2001 disability policing results with the Social Security Administration (SSA), they did perform continuing disability reviews and some state wage matches which would have included some, but not all, 2001 earnings cases. We chose the 2001 disability policing results for our sampling because it yielded a finite population of cases with earnings from which we could achieve our audit objective.

Evaluation Methodology

We selected a random sample of 30 annuitants from the population of 303 disabled annuitants with non-railroad earnings over \$5,000 that were identified in the 2001 disability policing results with SSA. For each case, we obtained and reviewed the annuitant's benefit history for previously applied work deductions and his/her earnings history for undisclosed earnings. We also reviewed the claim folders and benefit systems for evidence of agency processing actions and timeliness/completeness of these actions.

Results of Evaluation

Our evaluation identified 17 exceptions with total potential overpayments of approximately \$650,000. Exceptions included cases where earnings information was never reviewed, as well as the following processing problems:

- Some earnings reviewed in 2003, including one case with excess earnings dating from 1998, did not contain subsequent agency processing to confirm earnings, suspend the annuity, and process the overpayment.
- Some earnings reviews, including one case with excess earnings dating from 1998, were not started until 2004 and have not been completed.
- Earnings information used was incomplete, resulting in failure to identify excess earnings, because all earnings were not properly identified by agency staff during their review.

- The estimated overpayment receivable for a potential fraud case, which had excess earnings dating from 1995, was never established.

Conclusion

Based on these results, we believe that the agency is not processing disability earnings cases properly to ensure the timely identification and collection of overpayments.



UNITED STATES GOVERNMENT
MEMORANDUM

FORM G-115f(1-92)
RAILROAD RETIREMENT BOARD

FEB 04 2005

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: Draft Report – Evaluation of the RRB’s Processing of Disability Earnings Cases
Your memo of January 11, 2005

Overall comment We understand and agree with the overall findings that the “incidence of unprocessed disability work deductions warrants RRB’s management attention”. This audit has pointed out several issues that we had started addressing such as Service after the ABD, and control of disability work deduction cases through STAR. It also brought to light the need for a timeliness standard and training in this area, and revealed a need for a better control over cases which were referred to us by OIG investigations staff. We appreciate the work that your staff did in bringing these to our attention. Our responses to individual recommendations are included below.

We do have several comments regarding the projections and findings.

Case findings Regarding the finding of three errors in the first sample, we want to point out that in one, with “Service after the Annuity Beginning Date”, our disability examiner who was handling the disability freeze determination prior to your audit review caught the fact that there was railroad service on record after the ABD and began investigation. Since this case was under control even without the audit, we believe that it should not be considered among those that are overpaid due to the “agency deficiencies” cited.

We are still in the process of developing information on the second case, and have had to issue subpoenas to the two employers involved. It is possible that the earnings on record are not attributable to this annuitant. Until that issue is resolved, it’s not clear that this case should be used as the basis for projecting the number of overpayments in the universe.

**High incidence of
"false positives"**

Our experience with this workload shows that the development process often reveals that there is no erroneous payment. As we have seen through the course of this audit, your staff originally found six "erroneous cases" in the sample, four of which appeared to have "Service after the ABD". When we followed up with the rail employers (as we would do in the course of regular development in these cases), we learned that only one of those had actual service. Thus the number of the "erroneous payments" in your sample went down by half. The point is that the Service after the ABD workload requires extensive development which frequently reveals that the benefit payments were accurate as paid.

For this reason, we expect that there will be fewer cases actually found to have overpayments than the projections indicate at this point.

**Recommendation
1**

The OIG recommends that:
The Office of Programs complete a review of the 2000 and 2001 disability policing results from SSA, including re-verifying any excess prior year earnings.

OP Response

We will evaluate this workload and develop an action plan which will include tracking the volume and amounts actually overpaid within 6 months.

**Recommendation
3**

The OIG recommends that the Office of Programs establish standards for timely processing of the earnings cases identified in the annual disability policing program and report performance.

OP Response

We concur. We will develop a standard within 6 months.

**Recommendation
4**

The OIG recommends that the Office of Programs issue a reminder to staff of current procedures for identifying all earnings in their reviews.

OP Response

We concur. We will provide a training session for disability claims examiners within 3 months.

**Recommendation
5**

The OIG recommends that the Office of Programs develop procedures to ensure that overpayment information for cases referred by the OIG is forwarded to BFO for establishment of the receivable.

OP Comment

There is such a procedure currently in place for those cases which the Office of Programs refers to the OIG Investigations staff. The particular case found in the audit was one in which the original referral came from the OIG staff to the Office of Programs for determination of the amount of the overpayment. Since some earnings information was still outstanding OP staff was unable to develop a final overpayment amount, but provided a preliminary amount back to the investigations staff, without creating an accounts receivable record. We suggest that you revise the discussion of presentation of this issue on pages 5 and 6 of your draft and the audit recommendation itself to state that we need to "develop procedures for cases referred **by** the OIG" (not "**to**" the OIG).

OP Response

We concur with the recommendation as we suggest revising it. We will develop procedures for establishing receivable records for cases referred by the OIG to OP. We will complete this in 6 months.

cc: Chief Information Officer
Director of Operations
 Director of Retirement Benefits
 Director of Disability Sickness and Unemployment Benefits
Director of Policy and Systems
 Executive Assistant
 Chief of Calculation Analysis and Systems
Chief of Program Evaluation (UI/SI/DIS/FLD)
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)



UNITED STATES GOVERNMENT

MEMORANDUM

January 26, 2005

TO : Henrietta B. Shaw
Assistant Inspector General, Audit

FROM : Terri S. Morgan *Terri S. Morgan*
Chief Information Officer

SUBJECT : Draft Report – Evaluation of the RRB’s Processing of Disability Earnings Cases

I concur with recommendation number 2, “The Bureau of Information Services complete revisions to the Service after ABD Process that will accurately identify and compile service months.”

The program revisions necessary to properly code cases with covered earnings reported after the annuity beginning date (ABD) were put into production on January 25, 2005.

Cases with earnings after the ABD will be identified according to parameters to be provided by the Office of Programs. We hope to receive their requirements shortly and to run the programs to produce the listings by April 1, 2005 (the target completion date for this action).

cc: Dorothy A. Isherwood, Director of Programs